ARTICLES OF INTEREST

12/15/10

Governor meets with state employees

JOE MAHONEY/TIMES-DISPATCH

Gov. Bob McDonnell spoke to state employees Tuesday during a meeting at the Patrick Henry Building in Richmond.

No pay raise, McDonnell says

Given Va.'s finances, a "shared sacrifice' is needed, he says

BY TYLER WHITLEY
Richmond Times-Dispatch

Gov. Bob McDonnell told state employees Tuesday that the budget amendments he will propose to the General Assembly on Friday will contain no pay raise for them.

"I wish I could tell you better news," McDonnell said at the first-ever town-hall meeting he sponsored for state employees.

But he said the state has cut $10 billion from its budget in the past two years and needs to make up for some of those cuts. He held out the hope that he could promise a pay increase by the time he leaves office if the economy improves, perhaps as early as December 2011.

McDonnell also told state employees that they will be asked to pay a portion of contributions to the retirement system. He did not say how much but cited a Joint Legislative and Audit Review Commission report that found the Virginia Retirement System and other state-supported pension plans have unfunded liabilities of $17.6 billion.

The state has been paying employees' 5 percent share since 1983. When a state employee at the town-hall forum pointed out that that payment began in lieu of a pay raise, McDonnell said "you are exactly right" but said

PAY, Page A13

Governor's town hall

Watch as Gov. Bob McDonnell discusses budget topics with state employees at a town-hall meeting in Richmond. Go to TimesDispatch.com, search: video.

Pay

From Page A1

the state employees will have to begin making a "shared sacrifice."

Bill Via, the state employee, said after the meeting that he appreciated McDonnell's candor.

"He told us the truth," Via said.

McDonnell had some good news for the state personnel.

There will be no furloughs recommended in his budget amendments Friday, and health-insurance premiums will not go up, he said.

The promise of no furloughs drew applause from the audience, which filled more than half of the 300 seats set up in the former reading room in the Patrick Henry Building.

"I thought there would be more people," McDonnell said in blaming the bitterly cold weather.

The governor's office said more than 280 people also listened to an audio feed on the governor's website. In addition, the state had 34 off-site video-conferencing locations set up across the state so people could watch the proceedings.

The questions from the audience in the Patrick Henry Building were not screened. About 200 questions were offered online.

Employees asked about telecommuting; greening state government; 10-hour-a day, four-day workweeks; high state tuition costs; and incentives to encourage state employees to walk or bike to work.

"I'm doing my part: I walk to work," quipped McDonnell, who lives in the Executive Mansion a few hundred yards from the Patrick Henry Building, where he has an office.

twhitley@timesdispatch.com
(804) 649-6780

Twice-a-year real estate bills

12/15/10

Richmond splitting payments, making one due in January

BY WILL JONES
Richmond Times-Dispatch

In a money-saving move to improve its cash flow, the city of Richmond may have created a post-holiday pinch for some of its homeowners.

The city is mailing the first bills as part of its switch to twice-per-year collection of real estate taxes. Bills covering a half year of taxes were sent out this week and are due Jan. 14. A second round of bills will be due June 14.

Bill Pittman, a retiree who lives in Ginter Park, objects to a payment due in January — just after Christmas — and said he is concerned that many property owners are unaware that tax bills are imminent.

"People are not going to have the money to pay this upfront," he said.

Marcus D. Jones, chief administrative officer for finance and administration, said the city has been collecting about $200 million in real estate taxes in one payment each June. He said that system created a cash windfall for the city during the 1960s but also a significant downside in more recent years.

The city has had to borrow about $70 million on short-term basis to meet cash flow — which now costs taxpayers $1.7 million annually in interest payments. Such borrowing has hurt the city's efforts to upgrade its bond ratings. Mayor Dwight C. Jones wants to upgrade from largely double-A to triple-A status.

Marcus Jones said, in switching to two collections, the city needed to eliminate the need for borrowing and keep the payments in the same fiscal year, which runs July 1 through June 30. He said collections of a half-year's taxes in June and the following December would not have worked because the city would have forgone about $100 million.

Like other localities, Henrico and Chesterfield counties collect real estate taxes twice per year, with payments due in June and December. Hanover County collects its payments in June and October.

"This is bringing us more in line with the vast majority of localities across the state," Marcus Jones said.

He acknowledged that a January tax bill may not be ideal for homeowners whose real estate taxes aren't paid through a mortgage. He said the city has tried to soften the blow by accepting payments early into an escrow account and by expanding tax-relief for the elderly and disabled.

wjones@timesdispatch.com
(804) 649-6911

Economist: Recovery will gain steam

12/15/10

Zandi says signs point to stronger growth in 2011, 2012

BY JOHN REID BLACKWELL
Richmond Times-Dispatch

The U.S. economy is poised for economic and job growth in the next few years as some of the headwinds that have thwarted a strong recovery are easing, one prominent economist predicted in Richmond on Tuesday.

"I think our prospects are good that economic growth is going to improve steadily over the next couple of … years," said Mark Zandi, chief economist for Moody's Analytics and a frequent national commentator on economic matters.

Speaking at a meeting of the Richmond Association for Business Economics, Zandi conceded that his optimism is greater than the consensus view.

Also, there still are risks that could stymie the economy, he said, including a stubbornly high unemployment rate and a low rate of startup business creation.

However, Zandi said he expects the nation's gross domestic product, the broadest measure of goods and services produced, to grow just under 3 percent in 2010. The government reported last month that the GDP grew at an annual rate of 2 percent from July through September and had risen at an annual rate of 1.7 percent in the second quarter.

GDP growth should expand to 4 percent in 2011, and then grow "meaningfully north" of 4 percent in 2012, he predicted.

That kind of growth also implies that the job market will improve, and Zandi predicted that the unemployment rate will drop from nearly 10 percent now to less than 9 percent in 2011 and to about 7 percent by the end of 2012.

To back his optimistic outlook, Zandi said several economic "headwinds" that have

RECOVERY, Page B5

Recovery

From Page B3

held back growth are easing, but the recovery will be pushed along by "tailwinds" including pent-up demand from consumers who have held back on spending.

Consumers and businesses have been paying off debts, a process that Zandi thinks is reaching its apex.

Households, he said, have paid off about $900 billion in debts since late 2008. A lower debt burden should free them up to spend more money later in 2011, he said.

At the same time, the credit crunch is easing, Zandi said. For example, the number of commercial and industrial loans outstanding is on the rise.

"By this time next year, the credit spigot will be more fully open and flowing more normally to households and businesses," he said.

Although small businesses continue to face difficulties, large corporations are doing "fabulously well," with healthy balance sheets and expanding profit margins.

Healthy corporate profits are the result of "the amazing success of American businesses to reduce their cost structures" during the downturn, he said.

With companies sitting on a lot of cash, "It is really no longer a question of 'Can businesses invest and hire?'" Zandi said. "It is only a question of 'Are they willing to invest and hire?'"

Zandi thinks they will, later in 2011 and in 2012.

Yet the sluggish job market and high unemployment rate, he said, remains a key risk to the economy. Because small businesses create most new jobs, Zandi said he is concerned whether Americans are creating enough new businesses to fuel job growth.

Although home prices are going to decline more, Zandi said he expects the drop to be modest at about 5 percent over the next year.

He conceded, however, that his optimistic view is "on a razor's edge," because further declines in home prices could push more people underwater on their mortgages (more on their mortgage than the home is worth) reinforcing a vicious cycle of home loan defaults.

Zandi defended the federal stimulus program and the Federal Reserve's controversial loosening of monetary policy, arguing that it helped save the economy from a much more severe downturn.

Yet the federal government must get its fiscal house in order within a few years to avoid higher interest rates, he said.

jblackwell@timesdispatch.com
(804) 775-8123

12/12/10

Workers may face pension changes

Legislators may make all public employees pay into the system

BY MICHAEL MARTZ
Richmond Times-Dispatch

Virginia legislators are preparing to take a fresh look at whether to require state and local government employees to pay their full share of pension costs.

Faced with rising rates to pay for long-term liabilities, members of the General Assembly are considering requiring all public employees — not just those hired after last June 30 — to pay 5 percent of their salary toward their pensions.

T-D WATCHDOG

The legislature also is likely to discuss whether to offer state employees the option of contributing to a 401(k) plan they can manage themselves instead of a defined-benefit plan run by the state.

"There is no doubt this issue is going to be revisited this session," said Del. S. Chris Jones, R-Suffolk, chairman of the House Appropriations Committee's subcommittee

PENSION, Page A8

Pension

From Page A1

on compensation and retirement.

Jones also said he is disappointed that most local governments and school systems chose to pay for new employees' share of pension contributions.

❖ ❖ ❖

A new law took effect July 1 that required new state employees to contribute 5 percent of pay toward pensions but gave local governing bodies the option of covering the cost for new hires.

More than 80 percent of school systems and local plans opted to pay the employee share, according to the committee, which said local school systems alone could have saved $9.5 million by shifting the cost for new hires.

"I think that was a mistake," Jones said.

Chesterfield County was one of 26 counties that chose to require new employees to pay all or part of their 5 percent pension share. The county shifted the entire 5 percent to local employees, but the School Board chose to continue paying the share for teachers and other school employees.

"Our feeling was it is inevitable, so we bit the bullet," said Chesterfield County Administrator James J.L. Stegmaier.

Teacher advocates say local school systems would be at a competitive disadvantage in hiring if they were to shift the pension cost to employees.

"It's going to make it that much harder to get good people in the classroom," said Robley S. Jones, lobbyist for the Virginia Education Association.

The VEA, along with advocates for police and sheriff's departments, lobbied successfully this year to persuade Gov. Bob McDonnell to veto a provision of the new law that would have allowed localities the option of shifting the cost for existing employees.

The new law enacted sweeping reforms of the state pension system to reduce the cost of future benefits and require new employees to pay 5 percent of pay into their pensions. The changes are expected to save the state billions of dollars in pension payments over the next 10 to 30 years.

But the governor and the legislature also deferred paying $620 million into the state and teacher pension plans to balance the $70 billion biennial budget. That diminished the retirement system's ability to pay future liabilities at the same time it lowered its expectations for returns on market investments. The result is intensified pressure on contribution rates, which will be reset in 2012.

McDonnell has promised to begin making up those deferred payments in the coming year, but he wouldn't say last week whether he will propose to reverse a 27-year-old deal that allowed the state to cover employee shares of their pensions instead of raising their pay.

In an interview last week, McDonnell said he will recommend changes to the retirement system when he reveals his proposed budget amendments Friday, but he would not elaborate.


McDonnell

"What I'm interested in is the long-term solvency of the retirement system," he said, adding that he has 22 years of state service vested in the system.

McDonnell said he created a work group several months ago to consider pension options. He cited concerns about unfunded, long-term liabilities; the increasing number of employees retiring; and the potential for big increases in employer contribution rates next year.

"The numbers just don't add up," he said.

❖ ❖ ❖

Legislators, especially Republicans in the House of Delegates, say it's an issue they must address again in the session that begins Jan. 12.

"It's a concern to many of us as we look at long-term liabilities," said G. Paul Nardo, chief of staff to House Speaker William J. Howell, R-Stafford.

One option would be to swap a 5 percent raise in exchange for existing employees picking up their 5 percent pension contribution, said Robert P. Vaughn, staff director of the House Appropriations Committee.

"I think the governor could do it," Vaughn said, adding that McDonnell has heard from legislators about their concerns.

Vaughn estimates that such a move would cost the state about $11.6 million a year in federal payroll taxes on the higher pay, but it would eliminate the current distinction between state employees who pay a share and those who don't.

That distinction also is a problem at the local government level, where few localities chose to shift all or part of the pension contribution to new hires.

"We've always had a problem with benefits that are given for one set of employees and not for another," said Mary Jo Fields, a budget analyst at the Virginia Municipal League.

The VML and the Virginia Association of Counties wanted the option this year of making existing employees pay their share, as well as new ones. "In general, we support local authority to make their own decisions," Fields said.

It doesn't matter to the Virginia Retirement System who pays the contribution, but local officials are getting a lesson in the kinds of budget pressures they could face in the near future to pay for employee pensions.

For example, Chesterfield and Henrico counties would face a 4 percent increase in rates for local government employee pension plans if this were a rate-setting year, according to recent estimates by the system's private actuary.

Those pressures also apply to teachers covered by the state plan because local school systems pay about 66 percent of the cost on average, according to the VRS.

Robert P. Schultze, the system's director, said he has been talking to local government officials and school superintendents about the situation they might face soon.

His message is: "You're going to have to consider getting your employees involved in sharing the cost of the pension program."

mmartz@timesdispatch.com
(804) 649-6964

Staff writer Olympia Meola contributed to this report.

12/9/2010

Hanover assessments to decrease 4%, causing loss of $4.16 million

The average new-home sale price is down 7%

BY KATHERINE CALOS
Richmond Times-Dispatch

Real estate assessments in Hanover County next year will average nearly 4 percent lower than this year, chief assessor John W. Nelms Jr. told the Board of Supervisors Wednesday.

The loss of $514 million in value would produce a revenue loss of $4.16 million, based on the current tax rate of 81 cents per $100 of assessed value.

That loss is offset somewhat by new construction in 2010 that totals $90 million, representing an increase in value of 0.69 percent, and new growth such as rezonings that caused an increase in value of 0.57 percent.

Collectively, the loss in the tax base is 2.67 percent, he said.

About 56 percent of the parcels in the county have been reassessed, he said. Values have decreased primarily in the western and northern portions of the county.

The average new-home sale price has decreased 7 percent since January, to $252,100 from $272,100, he said. The average new-home sale price in 2008 was $419,900.

"That indicates that less-expensive homes are being built," he said, not that houses have lost that much in value.

The bad financial news continued with a report by County Attorney Sterling Rives on legislative priorities and by Frank Harksen, director of public utilities, on the potential effect of new Chesapeake Bay regulations limiting the total maximum daily load of nutrients going into the bay. Wastewater plant upgrades could cost $15 million before 2017.

"The way it looks now, these are local costs," Harksen said. "There are no state or federal funds identified."

Rives said state revenues to localities have been declining and that isn't likely to change. Stimulus funding is phasing out, one-time fixes already have been used, debt service is up, Medicare spending is increasing, transportation needs are still unfunded, and the state will have to start repaying obligations to the Virginia Retirement System and replenishing the rainy-day fund.

In other issues, the board:

♦ Extended the special exception permit for the BARK animal rescue group after hearing that the noise level was in compliance and all other conditions had been met.

♦ Established a special circumstances county decal with a $10 fee for vehicles that are not eligible for regular county decals but are used by Hanover residents to take residential trash to the county solid waste centers. Access to the Hanover waste centers has been limited to residents with a Hanover decal on their vehicle. A temporary permit process has also been created.

kcalos@timesdispatch.com
(804) 649-6433

McDonnell spends now; you pay later

Nine days before Gov. Bob McDonnell proposed paying for more highways with Virginia's credit card, a little-known state panel dominated by his appointees and allies quietly provided him political cover to do so.

The Debt Capacity Advisory Committee, through complex projections, told the Republican the state can afford to issue additional bonds without significantly exceeding a self-imposed debt limit of 5 percent of state tax revenue.

Barely a year ago, the committee informed McDonnell's Democratic predecessor, Tim Kaine, that Virginia — because of spend-a-thons by politicians in both parties — had maxed out on bonds through 2011.

What happened?

The debt board — based, McDonnell says, on recommendations by Wall Street, but despite objections by two top legislative staffers — concocted a new way to look at the blend of cash flowing annually to the state over the next 10 years.

And so, with barely anyone noticing — the minutes of the committee's Nov. 30 session have yet to be made public — the guidelines for financing bonds were tweaked just enough to accommodate McDonnell's latest attempt at fixing roads without raising taxes.

With a little bit of this — $150 million in surplus cash — and a lot of that — $3 billion in bonds — McDonnell proposes jump-starting a transportation program that hasn't received a significant gush of funds since 1986.

To the frustration of Senate Democratic Majority Leader Dick Saslaw and some of the grandees of business, McDonnell's plan would seem correct politically, echoing his mantra of no new taxes — words welcomed by recession-weary Virginians.

But is the plan fiscally responsible, even with the cost of borrowing falling?

McDonnell has been warned by the Democrat-dominated Senate Finance Committee of the escalating pressure on the cash side of the budget attributed to paying down debt — $849 million next year, including principal and interest. The committee's warning may be more a threat that it will scale back, if not kill, a bond plan deemed extravagant.

The position of the committee recalls the stance of Gov. Chuck Robb in the early 1980s.

With the economy emerging from the Jimmy Carter-era malaise and interest rates still high, Robb balked at legislative demands for bonds for colleges because the Democrat, who was no enemy of education, considered the hidden cost of debt — interest — the equivalent of a tax increase.

Fast forward to 2010.

The reliably Republican anti-tax group, Americans for Prosperity, is saying that and more. The organization, still angry over the governor's raid of the public-employee pension fund to balance the budget, sees the debt-dependent road plan as part of a pattern by McDonnell: spend now, pay later.

And that's what his friends are saying.

12/8/2010

State revenues up, but local revenues lagging

Assembly unlikely to restore cuts to local governments

BY TYLER WHITLEY AND OLYMPIA MEOLA
Richmond Times-Dispatch

A sunnier state revenue outlook won't necessarily warm local coffers.

House Majority Leader-elect M. Kirkland Cox, R-Colonial Heights, said Tuesday that despite a projected 4 percent increase in state revenues, the legislature is not likely to restore cuts made to local governments.

"For localities to get all of their wish lists back, it's not realistic," Cox told reporters at the annual AP Day at the Capitol.

Lawmakers made deep cuts last year to fill a multimillion dollar budget shortfall, including to K-12 education funding, which constitutes the lion's share of local budgets.

The Virginia Municipal League estimates that aid to localities has declined by $1 billion in fiscal years 2010 and 2011. Those cuts were mitigated in part by federal stimulus money.

Though the state is seeing increased sales and income taxes after two years of declining revenue, local governments are still hurting because about 50 percent of their revenues come from property taxes, which have suffered during the real estate bust.

Cox and Neal Menkes of VML agreed that the solution will be economic growth, which will generate more tax revenues. Cox said Gov. Bob McDonnell has taken several steps to promote jobs and tourism, both of which generate tax revenues.

Mike Reynold, deputy director of policy for McDonnell, said the governor will pursue more tax credits this year for research and development as part as of his higher education program. McDonnell will reveal his budget Dec. 17.

Williamsburg City Manager Jack Tuttle said the area saw tourism revenues drop and had to lay off workers, but he doesn't think services were adversely affected.

Jim Regimbal, a fiscal consultant for VML, said Tuesday that about 13,000 local government employees have lost their jobs since the beginning of the recession.

Also Tuesday, a panel agreed that changing congressional boundaries might pose the biggest challenge in next year's redistricting session. Because the House of Delegates is controlled by the GOP and the Senate by Democrats, they're expected to work on plans independently. They will have to agree on congressional districts.

twhitley@timesdispatch.com
(804) 649-6780
omeola@timesdispatch.com
(804) 649-6812

12/7/2010

State workers get extra day off

Governor thanks them for service, sets up town hall

By OLYMPIA MEOLA
Richmond Times-Dispatch

State employees are getting another early holiday gift: an extra day off.

In a message sent Monday to nearly 83,000 executive-branch employees, Gov. Bob McDonnell announced that state offices will be closed Dec. 23, giving employees an additional eight hours of time off "as a small token of my thanks for your continued hard work and dedication to serving the citizens of our commonwealth."

McDonnell

Last week, full-time state employees got a 3 percent salary bonus in their paychecks. State workers have not received a pay raise since November 2007.

Yesterday, McDonnell also released plans for a state employee town hall, to be held Dec. 14 in the Patrick Henry Building.

McDonnell spokesman J. Tucker Martin said the governor wants to hear state employees' "ideas, concerns and thoughts on how our state government is working and being managed."

"This is an opportunity to listen, and to improve state government."

Registration is first-come, first-served, but the meeting will be streamed live online.

In yet another overture to state workers, McDonnell said he plans to ask employees to participate in a survey "in order to ensure that your hard work remains motivating and fulfilling."

Sunday, December 05, 2010

Christiansburg's Microsoft miss brings pricey lessons

After getting sunk by a sinkhole, the wheeling and dealing show the unforgiving nature of luring new business.

By Jeff Sturgeon
381-1661

With spring approaching, recruiter Michael MacNeilly with the Virginia Economic Development Partnership could smell victory.

Microsoft Corp. was poised to announce plans to locate a nearly $500 million data center in Christiansburg, ending a three-year courtship to bring the high-tech, high-paying project to Montgomery County's prime industrial site.

"You could be pouring footers in less than a month," MacNeilly wrote to the company's head of data center development on Feb. 24.

A news release drafted March 23 under the headline, "GOVERNOR MCDONNELL ANNOUNCES MICROSOFT DATA CENTER IN MONTGOMERY COUNTY," called it the largest industrial investment in Southwest Virginia history.

Seven weeks later, Microsoft dropped Montgomery County from consideration.

The high-wattage electricity, premium broadband, utilities and government incentives Microsoft demanded were all there.

The deal-killer: a sinkhole about the size of a small backyard swimming pool that led to the discovery of underground voids that Microsoft feared could bring more.

The abruptness with which Microsoft changed course is characteristic of how big economic deals are made, with the company calling the shots.

"Everything has got to be absolutely perfect. They don't cut you any slack at all. Because the competition is so severe, they don't have to," said Glenn Barbour, chairman of the board of supervisors in Mecklenburg County, where Microsoft eventually decided to build the center.

The case was a nail-biter for officials who dealt with Microsoft in near-total secrecy.

It is noteworthy as a near-win of significant proportions that, aside from the geologic issues, places Montgomery County in a positive light. But it also raises the question of how much is too much when it comes to luring companies through economic incentives.

To attract Microsoft's interest, local leaders had dangled tens of millions of dollars in financial rewards through a commonly used tax-rebate mechanism.

Aric Bopp, who directs the New River Valley Economic Development Alliance, was quick to find a silver lining.

The region will not become a hub of Microsoft data operations. But neither is it on the hook for the steep price tag promised to the company.

"Maybe there will be a bigger and better use for the site in the future that employs more people and demands fewer incentives. I sure hope so," Bopp wrote to the Microsoft recruitment team.

But first, local officials have to grapple with the disclosure that Microsoft judged one of its prime sites geologically challenged, a potential obstacle for attracting the next "big one."

Incentive offers play out as a high-wire act

New River Valley economic development officials have declined repeated requests to talk about the Microsoft deal.

Yet 436 pages of e-mail correspondence and related documents -- released by the state after the Aug. 27 announcement that Mecklenburg County landed Microsoft -- tell the story of a three-year recruitment that unfolds in tense written exchanges and moments of intrigue.

Microsoft created the first personal computer software in widespread use and is a top player in the ongoing quest for the best search engine, best smart phone operating system and most trusted Web-hosting enterprise.

Hoping to expand quickly into cloud computing, or delivering computing power over the Web, Microsoft has begun work on a series of data centers around the globe.

Behind the veil of secrecy that officials fought hard to keep down during negotiations is evidence that Montgomery County and Christiansburg offered a small fortune to become a major contender for the new center.

To understand the magnitude of the story, one has to go back to January, when the business prospects were looking good for the Montgomery County site.

During confidential negotiations with local and state officials, Microsoft had gotten seriously interested in a graded lot measuring 46 acres. The facility was to house more than 100,000 computer servers to host ever-more data and computing power online.

Brian Hamilton, Montgomery County's economic development director, belonged to an inner circle of fully informed government employees who signed confidentiality agreements with Microsoft.

Scores of e-mail messages reflect his earnestness and hard work.

"We want this project," Hamilton told the Virginia Economic Development Partnership, a state-funded and controlled private, nonprofit corporation that oversaw the effort to attract the Microsoft facility to Virginia.

While the county grappled with finding money for basic services such as education, the localities offered to forgo \$62 million to \$117 million in taxes to attract the facility and its 50, \$50,000-a-year jobs, according to e-mail correspondence. The incentive amount has not been publicly released, but a state official tasked with making dozens of redactions in the 436 pages of e-mails before their release failed to black out Montgomery County's offer completely. It could not be confirmed.

Bernard Weinstein, who was director of the Center for Economic Development and Research at the University of North Texas from 1989 to 2009, is one critic of localities offering huge economic inducements to get noticed by the likes of Microsoft and other large corporations that from time to time add major new facilities.

Typical support includes upfront cash, discounts on land and utility connections, and rebates that return a portion of tax payments shortly after they are made.

Weinstein said he's got a big problem with localities behaving like cash machines to attract jobs when corporations are more than able to pay their own way.

Microsoft, based in Redmond, Wash., earned $18.8 billion on revenue of $62.5 billion during the 12 months ended June 30.

When told of Montgomery County's offer for the Microsoft data center, he called the offer "absolutely insane."

"This competitive incentives game is worse today than it's ever been," he said. "That's partly because there's so much anxiety about job creation, and local politicians love to run on a platform of 'Thanks to me, such and such company located here, or expanded here.' "

In addition, incentives are called unfair to established businesses that do not have a deal and must pay taxes.

To make matters worse, local government agencies do not know the names of the communities in the same state or another state they are competing against, let alone how much they have already bid.

But some "will do anything to land a business and garner splashy headlines ... for businesses that may bring few jobs to an area or have little overall positive effect on the economy," John Accordino, who teaches urban and regional planning at Virginia Commonwealth University, wrote in an article in Virginia Issues & Answers, a Virginia Tech magazine.

For their part, private and government economic development officers describe incentives as the price communities must pay to attract new business investment in today's environment.

Without incentives on the table, a community will be passed over, they say.

"Our region would fare much better if economic incentives did not exist because our natural attributes and assets would far outweigh what other communities have, especially in places like North Carolina," Bopp said of the NRV alliance. But "they're a necessary evil these days."

Accordino argues that the setting and offering of incentives should at a minimum be opened to public review. In a public arena, officials would have to make the case for incentives to citizens.

"If economic development focuses on growing the economic base and generally enhancing the region's ability to compete, public officials have nothing to fear from full and frequent public disclosure," he wrote.

As it stands, deals are all but sealed in private.

Documentation, even the confidentiality agreements, are hidden from public knowledge. Even the amount of incentives offered is information local and state officials say the public should not know.

A more radical proposal would be to ban government incentives at the local level, leaving the financial enticement of businesses to the states.

Tim Sutton, an elected official in Alamance County, N.C., who supports this vision, said if a company does not wish to expand or move in without a local financial reward, let it go elsewhere.

"If you've got something to sell in your county besides cash giveaways, you ought to be able to sell that," Sutton said.

Microsoft lands valuable incentive package

Mecklenburg County is unable to estimate its tax gains, break-even point or even the total value of the local incentives package for Microsoft, because it does not know precisely what the company will spend or when, County Administrator Wayne Carter said.

At its new home in Southside, Microsoft is in line for upfront payments of $2.1 million from the state and $4.8 million through the Virginia Tobacco Indemnification and Community Revitalization Commission; state sales tax exemptions of unknown value; $50,000 in state-paid employee hiring and training benefits; a $2 million piece of county real estate free; $3.95 million of benefits related to local "water and sewer connections;" and a 20-year, 90 percent local personal property tax rebate worth $12 million during the first three years alone, according to agreements signed by the company and government officials.

For its part, Microsoft promised the state it would spend $44 million on a new building subject to the local real estate tax and $255 million on equipment including computer servers subject to the local personal property tax by the end of 2014 and, in later years, spend an additional $200 million, for a grand total of $499 million, the agreements said. The company is preparing its building site, which sits beside U.S. 58 just outside Boydton.

The company has said hiring will begin by early summer. It is looking for about 50 people who will receive an average salary of $49,700, which is 75 percent higher than Mecklenburg County's average annual salary of $28,423.

The state expects to break even by 2021, according to its agreement.

Had the same deal been made in Montgomery County, it's unknown how much tax Montgomery County and Christiansburg would have kept.

Officials have said Montgomery County's offer was comparable to Mecklenburg's but would not detail it.

The new jobs would have expanded a budding tech job market in Montgomery County.

A 2008 study found that 4,324 people making an average of $55,414 a year work in information technology and telecommunications at 560 establishments in the Roanoke and New River valleys. The addition of 50 jobs would have represented a gain of about 1 percent.

Dooming sinkhole erupts on eve of site visit

The exact date the sinkhole developed is not available, but in late January, county officials were calling for a geotechnical company to investigate the cave-in.

The sinkhole was small, 8 feet across and 4 feet deep, nothing like the large, well-publicized sinkholes of Florida and Central America that swallow buildings and vehicles.

But it needed prompt attention. Microsoft officials had sent word they were going to inspect the Falling Branch Corporate Park property on Feb. 9.

Although they were told about the repair job, the West Coast business executives could not see it when they reached Falling Branch, thanks to the hustle of a heavy equipment crew and a well-timed snowfall.

If Microsoft was worried about the sinkhole, it did not relay the worry by e-mail.

Slightly more than a week after company executives returned to Washington state, Christiansburg received a preliminary site plan on Feb. 17, said town engineer Todd Walters.

Not long after, Kevin Williams, a Microsoft official, began to strategize about the official announcement, asking for a draft of the remarks that Gov. Bob McDonnell would make. The Virginia Economic Development Partnership drafted a news release.

In it, the release's writer labeled Rep. Rick Boucher, D-Abingdon, who was campaigning for re-election at the time, as instrumental in bringing Microsoft to the county.

Boucher, who was chairman of the House Subcommittee on Communications, Technology and the Internet, had courted Microsoft for years to make a major investment in the 9th Congressional District. Microsoft's third Virginia site given serious consideration was in Wythe County, also in the district, the economic development partnership said.

It seems clear that Boucher wanted Microsoft on his job-creation resume. But when the news release was issued about Microsoft going to Mecklenburg County, there was no mention of him.

Boucher, who lost his re-election bid by about 9,000 votes, declined repeated requests to discuss the matter.

Tension in the ranks rises as delays stall project

Montgomery County was making progress in its campaign to lure Microsoft, but not without wires and feelings getting crossed.

MacNeilly, representing the state, and Hamilton, representing Montgomery County, tangled over access to information, control of the process and handling the aggressive personalities at Microsoft. Virginia officials viewed Microsoft with a healthy respect but not complete trust.

When a local official groused that somebody had been "blabbing" to reporters, a colleague told her that Microsoft negotiator Sylvia Kang had a history of leaking information to prime the pump of taxpayer-funded incentives.

Kang declined to comment, a spokeswoman said.

On another occasion, Hamilton mistakenly copied Williams, Microsoft's data center chief, on a sensitive e-mail to the state. MacNeilly scolded him, saying he feared Hamilton had given Kang information she could use to "eat us all alive."

Hamilton shot back that state officials left local officials without complete information and should give more cooperation and flexibility.

Liz Povar, director of business development at the Virginia Economic Development Partnership, said members of a business-recruitment team are in a relationship "just like marriage. You have times you agree and times you disagree."

And while MacNeilly once told Hamilton, "there are pieces of the puzzle you are not knowledgeable about," the state denies playing the two counties against each other.

When Microsoft was focused on Montgomery County, it was not analyzing any other Virginia locations with state assistance at the same time, Povar said.

After Microsoft eliminated Montgomery County, the state forwarded information on other Virginia sites, including the Mecklenburg County property, Povar said. It had been passed over during Apple Inc.'s recent hunt for a data center site that the company ended up building in North Carolina.

More or less sitting on the sidelines during the negotiations were elected officials, who learned details in closed session but not that Microsoft was involved. They relied on staff advice that something big was in the offing that needed their support.

Annette Perkins, chairwoman of the Montgomery County Board of Supervisors, who says in the drafted news release she is "extremely pleased to see Microsoft locate in Montgomery County," declined to discuss the matter recently. She said she did not have enough information about the county's offer.

But when the staff needed the support of elected officials, they gave it.

On April 20, the Christiansburg Town Council was asked to grant permission for a company to store 300,000 gallons of diesel fuel at a proposed new facility at Falling Branch to power as many as 30 backup electrical generator sets, if needed.

Without knowing the company was Microsoft or that the project would be a data center, council members waived the town's diesel fuel storage cap of 80,000 gallons through the approval of a conditional use permit.

But the same day, Hamilton received disturbing news: Although a county-paid contractor had quickly repaired the sinkhole, Microsoft had decided to take a closer look at the local geology. It concluded that the risk of more sinkholes was real. Everything came to an abrupt halt.

"We had 90 percent of the design done for Christiansburg," said Jens Housley, Microsoft's on-site project manager in Mecklenburg County. "We were almost ready to select the general contractor and start earth work moving within a month. Then we had to stop everything and say, 'Whoa, we've got to rethink this.' "

Eager to address the concern, the county lined up experts to present an alternative approach to the building foundation.

Hoyt Alford, a senior geotechnical engineer at Froehling & Robertson Inc., worked for Montgomery County on that effort but declined to discuss it.

Speaking generally about the issue, he said many industrial buildings have been built with ample stability on karst terrain, which features subsurface, eroding limestone structures that can collapse without warning. When the surface soil falls in, a sinkhole forms. This type of geology is widespread in Western Virginia and in other states but can be managed with heavy duty or anchored foundations, he said.

But Microsoft saw its new data center, which is intended to run 24 hours a day, as different from most industrial structures.

A Microsoft-paid engineer, Paul Manzer, told the county that Microsoft believed more sinkholes were extremely likely after further geotechnical testing showed that the Falling Branch site contained numerous, underground mud and dirt-filled voids. Manzer warned that the potential effect on data center operations from another sinkhole had to be "zero or at least low," according to e-mail correspondence.

Only anchoring the data center to bedrock as deep as 140 feet would have given the kind of protection needed, Housley said.

But that work would have cost an additional $15 million to $30 million, a big added expense on top of a $44 million building, he said.

"That's not a good value for our stockholders," Housley said. "That's when we started looking at other sites."

Outwardly, county officials put the best face on the rejection, issuing a news release with congratulations for Mecklenburg County and a plug for Falling Branch Corporate Park.

None of the four businesses at Falling Branch today has had any issues with subsidence or building stability, representatives said.

"We are still confident that Montgomery County is a great location for companies who wish to have access to our strong utility infrastructure, an excellent work force, and world-class educational opportunities for their employees and families," said County Administrator Craig Meadows.

County spokeswoman Ruth Richey said what drew Microsoft to Mecklenburg County was, at least in part, the tobacco fund money that was not offered in Montgomery County.

Officials are keeping the business park's biggest lot and its repaired sinkhole, now covered with grass, on the market as a lure for the next prospective employer until such time as the bidding for jobs and investment using a prime business address, sweetened by incentives, can begin again.

12/3/2010

Summit focuses on Va. needs

Transportation and work-force training are viewed as critical

BY PETER BACQUÉ
Times-Dispatch Staff Writer

WILLIAMSBURG — Virginia needs to invest more in transportation and work-force development to underpin its future competitiveness in the global marketplace, speakers at Virginia Chamber of Commerce's Economic Summit said here yesterday.

Turbine-engine builder Rolls-Royce expects to invest $500 million in its manufacturing center in Prince George County.

But "the one thing that . . . concerns us is the state of work-force development," said William Powers, executive vice president and chief financial officer of Rolls-Royce North America Inc.

Meanwhile, spending $1 billion a year in Virginia's road network would increase the state's economic output by $2.45 billion and create more than 18,000 new jobs, a new industry study says.

An investment that large would reduce the state's unemployment 0.5 percent and generate $162 million in new state tax revenues, according to the study presented at the economic summit yesterday.

Though the summit's theme was "Preparing for a Brighter Future," the state doesn't have that kind of money to pour into its highways.

"We face a critical situation," said Jeffrey C. Southard with the Virginia Transportation Construction Alliance. "We have failed to make a significant, sustainable investment in transportation in 25 years," since the state last raised the gas tax, its key source of money for highways.

The state needs a viable, dedicated source of public revenue for transportation improvements, agreed Ken Daley, Transurban's international development president.

Transurban is a multinational developer of public-private toll roads, including the Pocahontas Parkway toll road. But, Daley said, public-private partnerships are not a substitute for sustainable public funding.

Now, Southard said, "our failure has come home to roost," pointing to the impact of the

See **SUMMIT**, Page **B7**

Summit

From Page **B5**

state's deteriorating roads and bridges — and increasing congestion — on economic activity and quality of life.

The transportation alliance commissioned the economic impact study, prepared by economists at the Washington-based American Road & Transportation Builders Association's Transportation Development Foundation.

Quality of life was one of the reasons Northrop Grumman Corp. decided to relocate its corporate headquarters to Northern Virginia, the company's vice president for finance, Gaston Kent, told about 400 business leaders meeting at the Kingsmill Resort and Spa.

One factor that needs work is the traffic problem. "It's really, really bad in Northern Virginia," he said.

Canon Virginia Inc., like Rolls-Royce, is concerned about developing workers for the 21st century. The company has 1,700 employees in Newport News and Gloucester.

"We're transitioning from production workers to knowledge workers," said Scott Millar, the company's senior director for human resources. But "we're not seeing that coming through the door."

The state needs more resources, he said, to produce the skilled, agile and savvy workers for the future.

With national unemployment above 9 percent and no early end in sight, "it's going to require business's voice to be heard" to fix the nation's intertwined political and economic problems, said Karl Rove, who served as deputy chief of staff under President George W. Bush.

Even then, Rove told the event's packed luncheon audience, "it's going to be pretty difficult."

The state chamber gave its Torchbearer Award for the Seventh Congressional District to the Greater Richmond Partnership for its economic development work for Richmond and the counties of Chesterfield, Hanover and Henrico.

The chamber's statewide Torchbearer award went to the Virginia Department of Business Assistance.

• Contact Peter Bacqué at (804) 649-6813 or pbacque@timesdispatch.com.

http://www2.godanriver.com/news/2010/dec/03/audit-pittsylvania-county-owes-virginia-77-million-ar-693778/

GoDanRiver.com
Danville, VA; Reidsville & Eden NC

Published: December 03, 2010

Home / news / local /

Audit: Pittsylvania County owes Virginia $7.7 million

By John Crane

A report from Virginia's Auditor of Public Accounts says Pittsylvania County could owe the state $7.7 million reimbursement for students and services that were not eligible for funding under Virginia's Comprehensive Services Act for At-Risk Youth and Families program.

Also, the November report found that Pittsylvania County Schools and the county's Social Services Department spent $14.5 million and $165,000, respectively, for service providers without written agreements with their providers.

But Pittsylvania County's administrator and the superintendent of Pittsylvania County Schools disagree with the report's results.

"Pittsylvania County Schools takes exception to the report and disagrees with the conclusions drawn and the suggestions that funds should be returned," Superintendent James McDaniel wrote in response to the conclusions. "The school division was acting in good faith and believed it was complying with CSA requirements for accessing funds."

The report also found that county schools and Social Services "do not have proper policies, procedures and controls in place to properly contract with CSA providers," Walter J. Kucharski, Virginia's Auditor of Public Accounts, wrote.

The report points to a "lack of communication and coordination between the School Board office, the Community Policy and Management Board and the CSA coordinator."

"Overall, Pittsylvania County does not have adequate policies, procedures and controls over the CSA program," Kucharski states.

Kucharski reviewed the county's CSA program at the request of the state's Office of Comprehensive Services and the Department of Education. The two entities performed an onsite review of the county's CSA program after the Danville-Pittsylvania Community Policy Management Board chair, Pittsylvania County Social Services Director Sherry Flanagan, requested it, according to the report.

The review covered children who received CSA funding in 2009 and 2010 fiscal years. Research included interviews with personnel from the Pittsylvania County, Department of Education and Office of Comprehensive Services. The report also included review, analysis and testing of CSA expense and eligibility data, student count data and student and service eligibility for CSA funding.

The review's objectives were to:

-- Determine whether Pittsylvania County students and the CSA funded services the students received are eligible for CSA funding.

-- Ensure Pittsylvania County used appropriate vendors to provide CSA-funded services and that contracts exist to support vendor payments.

-- Ensure that Pittsylvania County properly reported to the commonwealth student data that affects CSA and education funding.

-- Determine whether Pittsylvania County has established and implemented adequate internal controls over CSA expenses.

The General Assembly passed the Comprehensive Services Act in 1992 to address the rising costs of residential treatment for at-risk children, according to Kucharski's report. Its purpose was to "create a child centered, family focused and community-based system to assist troubled and at-risk youths and their families in the least restrictive environment by managing funds at the local level."

As a result of the report, Kucharski's report recommends:

-- The county administrator work with the Office of Comprehensive Services to determine how to return the $7.7 million to the state.

-- The Pittsylvania County School Board and the Board of Supervisors conduct internal reviews of their respective operations and implement appropriate internal controls to oversee their part of the CSA program.

-- The Pittsylvania County School Board office should work with the Community and Policy Management Board and the CSA coordinator to develop and implement adequate policies, procedures and controls over the fiscal and administrative aspects of the CSA program, including proper controls over the procurement and contracting for services.

-- The Office of Comprehensive Services collaborate with the Departments of Education, Social Services and Medical Assistance Services to provide background and guidance to certified public accounting firms with audit specifications to help the firms understand the CSA program.

Crane is a staff writer for the Danville Register & Bee.

Independent-Messenger 12/1/10

Real Estate tax deadline nears

By TERESA WELSH
I-M Staff Writer

All real estate/property taxes in Greensville County and the City of Emporia are due by Dec. 6 at 5 p.m.

The full year's tax must be paid by that date to avoid penalty and interest.

Mailed remittances must be postmarked prior to midnight on Dec. 6 to avoid penalty and interest.

In Emporia and Greensville County, vehicle owners must also pay the $25 fee charged in association with registered and licensed vehicles.

In Greensville County farm vehicles are exempt.

The county is proposing that starting July 1 the tax year would start and end the following June 30. Details are still being worked out .

The proposed ordinance, which has not been adopted or publicly discussed, stated that starting Tax Year 2011, all county real property tax, personal property tax and machinery and tools tax would be payable in two equal installments, the first of which would be due June 5 of the Tax Year, and the second installment would be due by Dec. 5 (Taxes are due Dec 6 this year because Dec. 5 is a Sunday).

Currently, all of the taxes are due totally on Dec. 6. Residents have complained for years about having to pay the taxes so close to Christmas.

The Greensville County Treasurer's Office will also hold extended hours on Dec 2 and Dec. 3 from 8 a.m. until 7 p.m. and open Saturday, Dec. 4 from 8 a.m. until Noon to assist county taxpayers with end of the year issues.

Dog tags are also on sale and due by Jan. 31, 2011.

11/30/2010

Obama: Freeze federal salaries

From Staff and Wire Reports

WASHINGTON — President Barack Obama called yesterday for a two-year freeze on federal workers' pay. His proposal kicks off a week of partisan debate over how to contain government spending while stabilizing the economy.

"Going forward, we're going to have to make some additional very tough decisions that this town has put off for a very long time, and that's what this upcoming week is really about," Obama said in announcing the freeze plan, which would save about $5 billion over two years and affect civilian workers but not the military.

BREAKING NEWS
11/29/10 2:40 PM
TimesDispatch.com

Congress must approve the pay freeze for it to take effect.

Rep. Eric Cantor of Virginia's 7th District, the House Republican whip and the soon-to-be House majority leader, said he was encouraged by Obama's proposal and noted that Republicans in the House offered the same budget-cutting proposal in May.

"We are pleased that President Obama appears ready to join our efforts," Cantor said. "As the recent election made clear, Americans are

See **FREEZE**, Page **A6**

Obama's pay-freeze proposal drew fast opposition from labor and liberal groups, while many Republicans and some Democrats said it wouldn't go far enough.

Freeze

From Page **A1**

fed up with a government that spends too much, borrows too much, and grows too much."

Rep.-elect Robert Hurt, who defeated Rep. Tom Perriello for the House seat in Virginia's 5th District, sounded a similar theme.

"It is encouraging to see that President Obama is now embracing this spending cut that was proposed by House Republicans earlier this year and supported by many of us on the campaign trail," said Hurt in calling the proposed freeze "another step in the right direction in restoring fiscal responsibility to Washington."

Obama's pay-freeze proposal drew fast opposition from labor and liberal groups, while many Republicans and some Democrats said it wouldn't go far enough.

Lawrence Mishel, president of the liberal Economic Policy Institute, called the plan "another example of the administration's tendency to bargain with itself rather than Republicans" and said it reinforced a "conservative myth" that federal workers were paid too much.

House Minority Leader John A. Boehner, R-Ohio, who is to become speaker of the House next year, said Obama should go further and support a federal hiring freeze.

Like the ban on earmarks — the local projects that lawmakers slip into legislation — which congressional Republicans endorsed this month, independent budget analysts thought the pay freeze would make little difference to the budget but that it did give Obama a head start in this week's political gamesmanship.

"Freezing federal pay is just getting ahead of the curve. It's a good talking point," said Tripp Baird, who was a top aide to former Senate Republican leader Trent Lott of Mississippi and now is an analyst at the Heritage Foundation, a conservative research center.

Looking ahead: Today, the president is to meet with congressional leaders from both parties to haggle over what can get done in their lame-duck session during the next three weeks, especially whether to extend Bush-era tax cuts that otherwise will expire at year's end.

Tomorrow, the National Commission on Fiscal Responsibility and Reform, also known as Obama's bipartisan deficit commission, is to issue its report on how to bring down the crippling budget deficits and debt.

On other urgent fiscal fronts, about 2 million people stand to lose extended unemployment benefits during the next few weeks unless Congress acts soon; the money runs out today.

Congress also must act by Friday to authorize money to keep the government functioning; otherwise, most nonessential government services would shut down.

Tax-cuts battle: With Bush-era tax cuts set to expire Dec. 31, there's a lack of consensus on how to proceed on that hot-button issue as well.

Democrats who are in control of the lame-duck House say they'll vote to extend only those reductions that affect individuals who earn less than $200,000 annually and couples that make less than $250,000. Most Senate Democrats are expected to follow suit.

But at least five Senate Democrats have said they want the cuts extended for those who earn more, too, at least temporarily.

Sen. Jim Webb, D-Va., said he doesn't "think they ought to be drawing a distinction at $250,000," while Sen. Evan Bayh, D-Ind., said "raising taxes will lower consumer demand at a time when we want people putting more money into the economy."

Democrats control 58 Senate seats, but they need 60 votes to cut off debate. All 42 Republicans are expected to push to extend all the cuts — and to block anything less.

• Staff writer Tyler Whitley contributed to this report.

Obama's plan

President Barack Obama's proposal to freeze the pay of many federal workers must be approved by Congress.

Savings: $5 billion over two years.

When: Jan. 1, if Congress approves.

Who's affected: About 2 million federal workers, including executive-branch employees.

Who's not: The military, members of Congress or their staffs, defense contractors, postal workers, or federal court judges and workers.

In Virginia: The state has about 173,500 federal employees as of October, including about 16,000 in the Richmond area.

Comparison: Federal civil-service pay rose 2 percent in 2010 after rising 3.9 percent in 2009 and 3.5 percent in 2008, the Congressional Research Service said.

Personnel costs: The government is projected to spend about $457 billion on personnel costs in fiscal 2011, the Congressional Research Service said. That's up from $447 billion in 2010.

SOURCES: The Associated Press, Bloomberg News

11/30/2010

Va. workers getting 3% bonus

One-time payments this week to 96,000 employees will cost state about $82.2 million

BY TYLER WHITLEY
Times-Dispatch Staff Writer

Full-time state employees will get an early present tomorrow — a 3 percent salary bonus in their paychecks.

The bonus will cost the state about $82.2 million and will go to about 96,000 employees. Part-time workers and statewide officeholders — Gov. Bob McDonnell, Lt. Gov. Bill Bolling and Attorney General Ken Cuccinelli — will not be included.

State employees have not received a pay raise since November 2007. This will not be considered a pay raise, because the one-time bonus is not included in the salary base.

BREAKING NEWS
11/29/10 1:39 PM
TimesDispatch.com

The bonus is 3 percent of an employee's annual base pay rate. For example, if an employee makes $50,000, the bonus would be $1,500 before taxes.

The bonus will be included in tomorrow's paycheck. There will be no separate check.

In February, during the General Assembly session, McDonnell proposed a 3 percent bonus to take effect in December 2011.

In hammering out the state's budget, legislative negotiators moved the then-potential bonus forward a year. The bonus was to be paid if revenue from the fiscal year that ended June 30 would cover the cost.

During the legislature's April veto session, McDonnell proposed specific language to allow unspent balances to be put toward the bonus, creating an incentive for state agencies to save money.

See **BONUS**, Page **A6**

Bonus

From Page **A1**

"This is conservative governing in action, providing public-sector employees with incentives to save and manage taxpayer dollars more efficiently and effectively," Tucker Martin, director of communications for McDonnell, said yesterday.

"This is a success for demonstrating how private-sector practices can make government work better and smarter. This is a whole new model for how to do things in Richmond, and one that hopefully will be replicated nationally.

"In a tough economy, state employees returned $174.7 million to state coffers and demonstrated that governments can live within their means, just like families and businesses do every day."

After McDonnell and the assembly cut almost $4 billion from the budget, the state wound up with a $403 million surplus in the two-

The association, a state employee advocacy group, has about 20,000 members.

McDonnell has cautioned that the economy still is shaky and that state workers should not expect a pay raise for some time.

"We are still in tough financial times," he said Sept. 30 on the "Ask the Governor" radio show on WRVA (1140 AM). "I don't see any long-term pay raise in the near future."

• Contact Tyler Whitley at (804) 649-6780 or twhitley@timesdispatch.com.

SPECIAL REPORT

11/28/10

State pay lags private

Rank-and-file state workers earn average of 20% less, data say

BY CHRIS I. YOUNG AND JIM NOLAN
Times-Dispatch Staff Writers

The biggest open secret in state government is this: Workers aren't financially rewarded for sticking with their jobs.

In the Virginia Department of Transportation, for example, there are 68 construction and building inspectors listed as "Engineering Technician II," and one of the most senior workers, who has almost 32 years with VDOT, makes about $10,000 less than a four-year employee in the same job.

State human resources officials say it's difficult to compare

State salaries

- Database of state employee salaries to include additional state agencies, dates of hire for 212 government departments. TimesDispatch.com, search: state salaries

▪ ▪ ▪

the salaries of employees in the same job categories, because more than a dozen factors are considered when determining compensation — including education, experience, performance and date of hire.

But officials also acknowledge that in recent years, pay ranges for certain government jobs are being distorted or even inverted because of a chronic lack of funding for raises and salary adjustments. Veteran employees lag

See **PAY**, Page **A10**

Pay

From Page **A1**

behind the market rates given to new hires in the same jobs.

The human resources world has a name for this trend: salary compression.

"Any time there is a movement in the market and new hires are paid at the new market rate, the current employees with no raises are going to lag the market," said Sara Wilson, director of the state Department of Human Resource Management. "And if you do that year after year, it's cumulative."

A state compensation system put in place 10 years ago provides government agency managers the flexibility to address individual salary discrepancies. But state legislators have never funded the program.

"We have the tools, but not the funding," Wilson said. The legislature, she said, "would like to help," but the No. 1 priority in tough economic times has been to focus on funding for education, public safety and public health.

"I think all employers, whether in the private sector or public sector, struggle with pay within certain pay bands and job decriptions," said Del. S. Chris Jones, R-Suffolk, a member of the House Appropriations Committee.

The legislature, said Jones, "has tried to maintain a benefit package that will compensate our valued state employees where we can't compete in salary, and our focus is to make sure we maintain that."

Only once in the past decade — 2005 — has the state been fiscally able to address salary compression at all; employees hired before Nov. 26, 2000, received a raise of $50 per year of service.

Plus, in just five of the past 10 years, all employees who performed above a certain level on their yearly evaluations received a raise, according to DHRM data. The last time was in 2007.

This year, employees will get a 3 percent one-time bonus Dec. 1, Wilson said.

Nationally, workers saw a 2.75 percent average salary increase in 2009 and 3.9 percent increase in 2008, according to the DHRM.

Comparison of private industry and state employees' average salaries

September 2009

Occupation	Private industry average salary	Average Virginia employee salary	Deviation
Truck driver, light	27,500	19,242	-42.92%
Mail clerk	31,300	26,212	-19.41%
Secretary	37,400	29,902	-25.08%
Yard laborer/Janitorial supervisor	43,000	32,309	-33.09%
Maintenance electrician	46,800	37,348	-25.31%
Medical lab technician	40,306	42,413	4.97%
Accountant	50,200	43,866	-14.44%
Social worker	53,373	44,933	-18.78%
Staff registered nurse	62,638	47,416	-32.10%
Attorney	109,300	59,984	-92.81%
Physical therapist	68,634	71,959	4.62%
Database administrator	89,200	81,472	-9.49%
Average			-20.10%

SOURCE: Virginia Department of Human Resource Management — TIMES-DISPATCH

❖ ❖ ❖

For rank-and-file state workers — the people who patch potholes on the interstates, guard prisoners, crunch numbers, and keep the governmental gears greased — job satisfaction is quite influenced by their salary, which is on average 20 percent lower than for a comparable private sector job, according to DHRM data.

In fact, the biggest reason that people leave Virginia government is for a better salary at their new job, according to a 2008 study by the Joint Legislative Audit and Review Committee, Virginia's watchdog agency.

Forty-two percent of state workers were dissatisfied with their salaries because their annual salary increases were not adequate, according to the study. Of these workers, more than one-third — 35 percent — told JLARC that new hires with less experience make as much or more than they do, which creates dissention and tension in the workplace.

Robert Trumble, VCU professor and director of the Virginia Labor Studies Center, said, "This issue's been around all my life."

"When we go to hire someone and we look at our competition, it's not just in Virginia; it's across the country," he said. "To compete, we have to offer salaries that are more than what our experienced faculty are being paid."

A 2009 study by DHRM of 25 occupations revealed wide discrepancies in average salaries between the public and private sector for many jobs. With the exception of medical lab technicians and physical therapists, who earned about 5 percent more, state jobs paid less.

The greatest differences were for truck drivers and lawyers. Truck drivers for the state averaged $19,242; in the private sector, they made $27,500, a difference of nearly 43 percent. Lawyers for the state earned an average of $59,984, compared with $109,300 in the private sector — a difference of nearly 93 percent.

The Richmond Times-Dispatch requested salary information from state agencies using the Freedom of Information Act. The average salary for 100,978 state workers in 212 agencies is about $50,410. That includes top university executives and coaches, who inflate the average amount with their six-figure salaries.

The median salary is lower, about $42,130 — half of all state workers make more, and the other half less — and a better descriptor of rank-and-file workers' pay.

❖ ❖ ❖

Historically, workers went to state government to have better benefits than the private sector, such as pension plans, also known as defined benefit plans, and stability. Private companies have all but abandoned pensions for new workers, and some state governments are scaling back as well.

In fact, Virginia makes new hires pay 5 percent of their salary into their pension plan, something the state pays for grandfathered workers.

But according to a consultant report to JLARC, the benefits don't make up for the salary difference. JLARC and consultant Mercer compared state compensation with a market group of peers in other governments and private industry such as Dominion Virginia Power, Capital One, and Media General, the parent company of the Richmond Times-Dispatch.

The value of the state's benefits, namely the pension plan and the vision and medical plans, was above the median value of the market, but the salary was below the market. Even with the state pension factored in, Virginia's total compensation was 96 percent of the compensation of its peer group — 4 percentage points below the median value for the study.

A. Lee Weisiger, a partner in the Titan Group, a Richmond-based human resources consulting firm, said that the 96th percentile puts Virginia "in the ballgame" to compete for workers with the private sector. But he said government clients will continue to wrestle with the compression issue.

"Governments don't have the money to make the salary adjustments," Weisiger said. "[This issue] is unlikely to go away soon."

• Contact Chris I. Young at (804) 649-6754 or cyoung@timesdispatch.com.
• Contact Jim Nolan at (804) 649-6061 or jnolan@timesdispatch.com